

EXHIBIT 28

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COMPOSITION OF COMMITTEE ON PUBLIC UNDERTAKINGS
(2000-2001)

Prof. Vijay Kumar Malhotra—*Chairman*

MEMBERS

Lok Sabha

2. Shri Prasanna Acharya
3. Shri Sudip Bandyopadhyay
4. Shri Surinder Singh Barwala
5. Shri R.L. Bhatia
6. Shri Shiv Raj Singh Chauhan
7. Shrimati Sangeeta Kumari Singh Deo
8. Shri C.K. Jaffer Sharief
- *9. Shri Ram Tahal Chaudhary
10. Shri K.E. Krishnamurthy
11. Shri Vilas Muttemwar
12. Shri Dharam Raj Singh Patel
13. Shri R.P. Rudy
14. Shri Tarit Baran Topdar
15. Shri Devendra Prasad Yadav

Rajya Sabha

16. Shri Jibon Roy
17. Smt. Ambika Soni
18. Shri Suresh Kalmadi
19. Shri Ranjan Prasad Yadav
20. Shri K. Kalavenkata Rao
21. Shri B.P. Singhal
22. Shri Satishchandra Sitaram Pradhan

SECRETARIAT

1. Shri Rajagopalan Nair — *Joint Secretary*
2. Shri S. Bal Shekar — *Director*
3. Shri Raj Kumar — *Under Secretary*
4. Shri Tirthankar Das — *Senior Executive Assistant*

*Elected w.e.f. 29th November, 2000 *vice* Maj. Gen. (Retd.) B.C. Khanduri ceased to be member of the Committee consequent upon his appointment as a Minister w.e.f. 7th November, 2000.

INTRODUCTION

1. I, the Chairman, Committee on Public Undertakings having been authorized by the Committee to present the Report on their behalf, present this Fourth Report on 'Air India Limited.'

2. The Committee took evidence of the representatives of Air India Limited on 21 June, 2000. The Committee took evidence of the representatives of the Ministry of Civil Aviation and Department of Disinvestment on 8th August, 2000.

3. The Committee on Public Undertakings (2000-2001) considered and adopted the Report at their sitting held on 8th January, 2001.

4. The Committee wish to express their thanks to the Ministry of Civil Aviation, Department of Disinvestment and Air India Limited for placing before them the material and information they wanted in connection with examination of the subject. They also wish to thank in particular the representatives of the Ministry of Civil Aviation, Department of Disinvestment & Air India Limited who gave evidence and placed their considered views before the Committee.

5. The Committee would also like to place on record their sense of deep appreciation for the invaluable assistance rendered to them by the officials of the Lok Sabha Secretariat attached to the Committee.

NEW DELHI;
February 7, 2001

Magha 18, 1922 (S)

VIJAY KUMAR MALHOTRA,
Chairman
Committee on Public Undertakings

CHAPTER I

BACKGROUND ANALYSIS

A. Historical Background

1.1 Air India was established in 1953 under the Air Corporations Act, 1953, to provide safe, efficient, adequate, economical and properly co-ordinated international air transport services. The undertaking of Air India was transferred to and vested in Air India Limited, a Public Limited Company registered under the Companies Act with effect from 1st March, 1994 after the Air Corporations (Transfer of Undertakings and Repeal) Act, 1994 came into effect.

B. Objectives

1.2 The objectives of Air India are to:

- (a) take effective steps to provide a high level of customer satisfaction;
- (b) enhance its competitive market standing and image as an international carrier;
- (c) optimise its share of the air market to/from India, consistent with the objectives of long term financial viability and sustainable growth;
- (d) optimise the utilisation of its resources—aircraft fleet and employees;
- (e) return to operating profitability within two years, and following the necessary financial restructuring to embark on the path of sustainable growth in the longer term;
- (f) achieve the highest level of safety of operations;
- (g) reduce the number of employees through the formulation and implementation of an attractive Voluntary Retirement Scheme and other innovative schemes.

1.3 When asked how far Air India has been able to achieve its principal objectives, it was stated by Air India in a written reply that the Company make continuous efforts to:

- (i) provide a high level of customer satisfaction, enhance its competitive market standing and image—through the upgradation of its Products and Service, both in flight and on the ground.
- (ii) optimise its share of the air market to/from India consistent with the objectives of financial viability and sustainable growth—through the deployment of capacity on profitable routes.

and economic liberalisation on the other. Also, the emphasis on profitability and better commercial results has increased. It is imperative that in order to keep pace with the world class airlines that are gaining ground; that Air India steps up its product, enhances the quality of its services, expands its fleet size and infuses a sense of discipline in the company. The Ministry has been encouraging Air India to induct more aircraft on dry lease after attempts at infusion of funds for purchase of aircraft did not materialise. Further, the Ministry has guided Air India to expand its network through the modes of code sharing and block space arrangements with other airlines. An overall analysis of the company has been done and it is felt that it would be in the interest of Air India for disinvestment of its Government equity partially so that fresh expertise can be involved in the reshaping of the organisation."

1.7 On being asked whether any plan has been submitted by Air India for capital investment and organisational restructuring for achieving growth to regain market standing and to develop competitiveness, the Ministry of Civil Aviation have in a written reply stated as under:

"Following the advise of the Disinvestment Commission, Air India has written to the Ministry for infusion of Rs. 1000 crores on 26.5.1999 requesting for equity capital to serve as margin money for the acquisition of new aircraft. This proposal has come in the wake of the recommendations of the Disinvestment Commission, wherein it has been suggested that Rs. 1000 crores may be added as equity to Air India by the Government. This Ministry has sent a draft Cabinet Note on 9.6.1999 to the Finance Ministry recommending the infusion of these funds. On 8.7.1999, Finance Ministry, however, has expressed its inability to provide these funds."

On 13.5.1998, a request had been received from Shri Vijay Kelkar, Chairman of the Committee set up to suggest measures for Air India's turn around, requesting for Rs. 500 crores to be earmarked in the Budget for the year 1998-99. (It is for information that this Committee did not submit any report). However, prior to this, on 13.4.1998, this Ministry itself had written to the Planning Commission, seeking budgetary support for Air India as one-time equity infusion. This request was not approved by the Planning Commission."

CHAPTER II

BOARD OF DIRECTORS

2.1 In reply to an Unstarred Question No. 2595 dated 16.12.1999 in Lok Sabha, it has been stated that four Functional Directors and five non-official Directors in Air India Board were to be appointed.

2.2 When the Committee enquired to know whether these Functional Directors and non-official Directors have been appointed in the Board, Air India have stated in a written reply, as follows:

"Four Functional Directors in-charge of Finance, Commercial, Engineering and Personnel and Five Non-official Directors, as provided for in the Ministry of Civil Aviation's Order No. AV. 18012/2/97-AA dated December 12, 1998 reconstituting the Board of Air India, are yet to be appointed on the Board by the Government."

2.3 It was also stated that the posts of Functional Directors are full-time operational Directors responsible for day to day functioning of the enterprise. The Bureau of Public Enterprises had issued guidelines in 1984 that the posts of Director (Finance) and Director (Personnel) be created in all Schedule 'A' and Schedule 'B' enterprises and on a selective basis in Schedule 'C' Companies. Apart from these two functions, the enterprises could have representation at Board level for other disciplines such as production, marketing, project planning etc. It was added further that the number of full-time Functional Directors on a Board should not exceed 50% of the actual strength of the Board.

2.4 Regarding appointment of Government Directors, it has been stated in a written reply that these Directors are appointed by the Administrative Ministries and are generally the officers dealing with the concerned enterprise. It has further been stated that the number of the Government Directors on a Board should not exceed one-sixth of the actual strength of the Board. The number should in no case exceed two.

2.5 In a written reply furnished to the Committee, Air India has stated that the induction of Non-official Directors on the Boards of Public Sector Enterprises has been considered essential in order to make the Boards more professional. They are to be drawn from the public men, technocrats, management experts and consultants, and professional managers in industry and trade with a high degree of proven ability. It was further added that the number of Non-official part-time Directors on a Board should be atleast one-third of its actual strength.

2.6 When the Committee desired to know details about the Government Directors on the Air India's Board and the role the Government Directors play in the Board of Directors, the Ministry of Civil Aviation stated, in a written reply, the following:

"Following are the Government Directors on the Air India's Board:—

1. Shri A.H. Jung — Part time Chairman
Secretary(CA)
1. Shri V. Subramanian, JS&FA,
Ministry of Civil Aviation
2. Shri Sanat Kaul, Joint Secretary,
Ministry of Civil Aviation

Shri Sunil Arora, Jt. Secretary, Ministry of Civil Aviation holding additional charge as CMD, Indian Airlines Ltd. is also on the Board of Air India in his capacity as CMD of Indian Airlines Ltd.

The Government Directors participate fully in the deliberations of the Board and play an important role in guiding the company with regard to the Government directions and instructions. Also they monitor the performance of the Company."

2.7 When enquired about the vacant posts of Functional Directors and non-official Directors, the Ministry of Civil Aviation in a written reply have stated:—

"The posts of Functional Directors in Air India's Board have not been filled. The posts of Non-Official Directors are vacant since 12.12.98."

2.8 When the Committee desired to know why the Ministry have not been able to decide the appointments on the Board of Directors, it was stated by the Ministry of Civil Aviation as follows:

"It is desirable to have a full-fledged Board for all PSUs including Air India. A detailed examination was made in the case of Air India and it was felt necessary to create the posts of Functional Directors. Since the company is likely to be disinvested shortly, it was felt, it would now serve no purpose to fill up the posts of Functional Directors."

CHAPTER III AUTONOMY

3.1 In an answer to a question relating to the role of the Government in the functioning and management of Air India, the Managing Director stated during evidence that the Board of Air India function under the overall approval of the Ministry of Civil Aviation. He further added:

"In some cases, it is sent to the Government. For example, investment decision in excess of Rs. 50 crores would go to the Government. The matters concerning bilateral rights, increase in service, etc. which are decided at the airlines level, in any case would go to the Ministry for approval. As far as aircrafts are concerned, they are taken care of by the Management of Air India. They are also subject finally to filing and approval of the DCGA which is another arm of the Ministry The major constraint is the systemic problem. Any investment decision above Rs. 50 crores not only requires the approval of the Board of Air India, the Ministry of Civil Aviation but it has to go through the entire gamut of approval of pre-PIB, PIB, Planning Commission, the Ministry of Finance, the Department of Economic Affairs, and sometimes even the PMO. With Rs. 50 crores you cannot think of buying a fleet of aircraft. This is one major problem area."

3.2 In this connection, AI in a written reply has stated the following:

"The wide bodied aircraft that Air India operates would cost upwards of Rs. 400 crores per unit. Therefore, all aircraft acquisition decisions fall beyond the limit of Rs. 50 crores..... Therefore the Air India Board does not enjoy full autonomy in decisions relating to the aircraft fleet. Increasing the investment limit by even 10 times will not lead to significant increase in autonomy as, even then, most aircraft acquisition projects will exceed the limit. Therefore, in Air India's view, the Board should have autonomy for any investment, without limit—if Government financing or guarantees are not sought."

3.3 When asked whether the investment limit can be raised beyond Rs. 50 crores, the Ministry of Civil Aviation in a written reply have stated as follows:

"The investment limit of Rs. 50 crores was fixed *vide* order dated 29.8.1990 of the Deptt. of Public Enterprises..... The Ministry of Civil Aviation agrees that it is desirable to enhance the investment limit beyond Rs. 50 crores to give more financial Autonomy to the Board of Air India."

3.4 The Ministry of Civil Aviation have further stated that acquisition of aircraft is a highly capital intensive project and requires substantial amount of funds. The proposals for this purpose would also be governed by the

existing guidelines of the Government with regard to the financial powers vested with PSUs. In the case of Air India, the investment limit stands at Rs. 50 crores beyond which the proposal has to be approved by the Government. Even enhancement of this limit by 10 times would not be sufficient to enable the company to go in for the purchase of appropriate aircraft. It needs to be examined whether the entire powers for purchase of aircraft be vested with Air India. However, in this context, it is worthwhile to mention that Air India has been acquiring aircraft by following due procedures and the non-acquisition of aircraft by Air India in the last few years cannot be attributed to the Government procedures or investment limits delegated to the company.

3.5 When enquired whether all decisions of the company needs the approval of Government, the Ministry of Civil Aviation in a written reply stated as under:

"It is not necessary for all decisions of the company at the Board level to be approved by the Ministry/Government. Only those proposals that are governed by statutory provisions or rules, guidelines or specific directions from the Ministry need to be sent for approval of the Ministry/Government. It is essential to point out that all managerial functions are within the purview of the airline. The Ministry does not play any role in their commercial or operational matters. However, since there have been complaints about poor performance on several fronts, such as commercial and marketing aspects, inflight services, on-time performance, etc., the Ministry has been monitoring all these areas and guiding the airline to improve its results."

CHAPTER IV FLEET

A. Fleet Strength

4.1 The fleet of Air-India is as follows:

Type of Aircraft	No. of Aircraft	Average Age (in years) As on 31.12.2000
B 747-200	4	21.0
B-747-300(COMBI)	2	12.2
B-747-400	6	6.1
A310-300	8	13.5
A300 B4	3	18.3
Total	23	

In addition, the Company has wetleased one IL 62 M aircraft from Aeroflot for its passenger operations on the India/Moscow/India-route till July, 2000. Besides, AI has signed agreements with two parties for dry lease of 2 each A-310 aircraft, one of which has already arrived.

4.2 When asked whether any fleet plan has been developed for Air India the Company in a written reply has stated as under:

"A fleet plan has been developed for Air India. It aims at increasing capacity at an average annual growth rate of 4.5% during the next five years, inducting new aircraft types matched to market requirements, rationalising the fleet to fewer aircraft types and also modernisation of the fleet by replacing older aircraft with newer more economic aircraft types."

In March 1999, a Technical Committee had been set up to identify the need for new aircraft types to specify the desired size, range and number of units of new aircraft types and to shortlist candidate aircraft. The Technical Committee recommended the induction of 6 Small Capacity Long Range (SCLR), 6 Small Capacity Short Range (SCSR) and 1 B747-400 aircraft during the next five years. The Technical Committee has also recommended the phase out the remaining older generation B 747-200/300s and A 300-B4 aircraft during this period."

The fleet plans indicated above have been revised recently, when the Business Plan was drawn up. The Government is processing for disinvesting its stake in Air India. Aircraft acquisition is likely to be implemented only after review of the fleet plan by the strategic partner, who is expected to assist in financing.

4.3 On the question of procedure for acquisition of aircraft, the Air India have stated in a written reply, as follows:

"The present procedure for aircraft acquisition is cumbersome and time consuming. First, there is the internal aircraft selection procedure based on guidelines framed by the Government which involves three Committees—a Technical Committee, a Negotiating Committee and a Techno-Economic Evaluation Committee. Then, Air India has to seek the approval of its Board and finally the Public Investment Board (PIB). In the PIB approval process, aircraft acquisition projects are appraised by numerous agencies—a process which takes a lot of time. The projects get cleared only if there is no objection from any of the appraising agencies.

According to CVC guidelines, Air India can only negotiate with the lowest bidder. In appraising aircraft project with differing revenue potential, fuel consumption and maintenance requirements, the techno-economic appraisal takes into account all these parameters. Therefore, determining the lowest bidder only on price considerations may not be appropriate. Further, it is an industry practice to negotiate simultaneously with both major manufacturers to get the best possible terms. If Air India were to follow CVC guidelines, this opportunity would be lost. Air India have advised the Ministry of its views and sought its direction on this matter.

Air India needs a simplification of the approval procedure for aircraft acquisition projects so that aircraft acquisition decisions can be taken expeditiously and the best possible terms can be obtained from aircraft/engine manufacturers."

4.4 When enquired whether Government have specific guidelines in regard to aircraft acquisition, the Ministry of Civil Aviation have stated the following in their written reply:

"There are guidelines of the Government with regard to aircraft acquisition. *Vide* letter dated 5.9.1997 (Annexure-I), Instructions were issued to both Indian Airlines as well as Air India with regard to streamlining of procedures for acquisition of aircraft. Subsequently, another letter was issued to MD, Air India on 20.7.1999 discussing the issues pertaining to the acquisition of aircraft (Annexure-II)."

4.5 When the Committee enquired to know whether the Ministry have simplified the procedure regarding acquisition of aircraft, the Ministry of Civil Aviation, in a written reply, have stated as follows:

"In order to simplify and broadbase the approval procedure for acquisition of aircraft, the Minister, Civil Aviation had written a letter to the Prime Minister on 1.12.1999 recommending the constitution of an Empowered Committee under the Chairmanship of Cabinet Secretary to review the proposals received for aircraft acquisition. It was proposed that the Finance Secretary, the Secretary (Expenditure), the Secretary (CA), Secretary, Planning Commission, Chief of Air Staff and Secretary, Defence Production